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SUBJECT: Parmalat, Italy's Corporate Giant, in Crisis

SUMMARY

1. Parmalat, Italy's dairy and food giant, is in the midst of financial crisis and is in danger of bankruptcy. Milan magistrates are investigating Parmalat's former top management for accounting irregularities committed from 1988 to the present that reportedly have resulted in a shortfall of Euro 10 billion (USD 12.5 billion). The GOI is expected to issue a decree law to implement bankruptcy protection procedures and to ensure that Parmalat's business operations can continue. End summary.

BACKGROUND

2. Parmalat, founded in 1961, is a major dairy product and foods group, controlled by Parmalat Finanziaria (FNC). The core business of Parmalat was the production of its long shelf-life milk; but over the years, Parmalat has diversified into other lines of food products, including cream, yoghurt, fruit juice, tomato products, bakery products, and mineral water. The Parmalat Group currently employs about 36,000 and operates more than 50 companies in 30 countries, including the United States, as well as 146 plants in China, Australia, Europe, and North and South America. Most of its European facilities are at Collecchio, near Parma.

THE CHARGES

3. Major European dailies reported December 20 that Milan magistrates are investigating Parmalat's former chairman and founder Calisto Tanzi, his son Stefano, and some 20 managers and auditors for accounting and financial irregularities committed from 1988 to the present. These irregularities produced a shortfall allegedly estimated at Euro 10 billion (USD 12.5 billion).

4. Enrico Bondi, an expert in corporate rescues, replaced Calisto Tanzi last week. According to media reports December 23, Bondi met prosecutors leading the investigation to discuss the case.

GOVERNMENT INTEREST

5. The GOI discussed Parmalat's situation December 19 and 20. Prime Minister Berlusconi said that the Government would seek to ensure that Parmalat's business operations could continue. The cabinet will meet again today (December 23) to review the situation and most likely approve a decree law to give the Prime Minister power to appoint three commissioners to replace the current board of directors. With respect to the question of financial support, however, Italy will be subject to scrutiny under European Union regulations.

6. Parliament is also interested in how the crisis is being managed. On December 22, Lower House Speaker Pier Ferdinando Casini announced that there will be a parliamentary inquiry to ensure that consumer rights are protected in any proposed solution.

COMMENT

7. Following the near-collapse of Fiat in 2002 and the collapse of another food company Cirio in 2003, Parmalat's crisis raises questions about the health of Italian capitalism in general. Like Enron, Parmalat's alleged financial irregularities also raise questions about the integrity of Parmalat creditor banks and its auditors. There will also be the question of who will finance any bailout (and that will be subject to EU regulations). Finally, since Parmalat is such a large

employer, any solution must also consider how to equitably resolve the question for thousands of Parmalat employees (and the employees of Parmalat suppliers, both

here and abroad). The Embassy plans to prepare a more comprehensive analysis the week of December 29. End comment.

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